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SUBJECT: COLOMBIA LOOSENS CAPITAL CONTROLS AS PESO FALLS

REF: BOGOTA 2053

11. (SBU) SUMMARY: Less than three months after tightening capital controls on portfolio investment (reftel), the Colombian Finance Ministry announced September 1 that it would eliminate deposit requirements on foreign capital inflows into Colombian stocks. The move represents the first loosening of Colombia's controversial capital controls since their implementation in May 2007 to combat the steady appreciation of the Colombian Peso and follows the Peso's 14 percent slide against the U.S. dollar since July 2008. Colombia's business community praised the decision and expressed hope that it would pave the way to achieving investment grade status for Colombian debt. END SUMMARY.

Change of Course

12. (SBU) Beginning in May 2007 Colombia announced a series of measures to restrict the inflow of foreign portfolio investment, which the GOC blamed for driving the Peso to record highs against the U.S. dollar and hurting the price competitiveness of Colombian exporters. The measures placed deposit requirements up to 50 percent of the investment for periods extending to two years. The capital controls were criticized by international investors and significant portions of the Colombian financial community as contrary to Colombia's progressive steps to liberalize the economy under President Uribe's administration.

13. (SBU) Amid continuing criticism that the controls prevented Colombia from recuperating investment grade status for its sovereign debt and the recovery of the U.S. dollar against the Peso since July, the Finance Ministry decided September 1 to partially lift the 50 percent deposit requirement on foreign investment in Colombian stocks and the two-year minimum investment period for foreign direct investment. However, deposit requirements continue for foreign investment in Colombian bonds and other financial instruments.

About Time

14. (SBU) Financial sector representatives praised the move by the GOC as a return to pro-market policies by the GOC. Mauricio Santamaria, Deputy Director of Colombia's leading economic thinktank Fedesarrollo, told us the partial lifting was overdue step since the controls have had little effect in preventing Peso fluctuations and the removal of restrictions on stock investments from abroad would add much needed depth to Colombia's small stock market.

15. (SBU) German Verdugo of Colombian brokerage firm Correval said the decision should encourage international investors such as Goldman Sachs and Morgan Stanley to take a closer look at investing in Colombia and will help speed up Colombia's recuperation of investment grade status for its sovereign debt. Finally, National Association of Financial Institutions (ANIF) Vice President Carlos Rojas told us that his members did not expect to see a large immediate inflow of portfolio investment due to the current tightness in international markets, but that over the longer term the loosening of the controls should bolster Colombia's image as a destination for foreign capital investment.

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